



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 18, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of Chaska
Charter Number 8378**

**301 Chestnut Street
Chaska, MN 55318**

**Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank of Chaska (FNB Chaska) is satisfactorily meeting the credit needs of its assessment area. This is best demonstrated by:

- Excellent loan volume, as evidenced by a quarterly average loan-to-deposit ratio that is strong when compared to other local banks of similar size.
- The origination of a majority of its residential real estate and commercial loans to borrowers located within its assessment area.
- A reasonable distribution of loans to borrowers of various incomes, especially those with low- and moderate-income, and businesses with different revenue sizes.
- A reasonable distribution of loans throughout its assessment area, specifically in moderate-income geographies.

DESCRIPTION OF INSTITUTION

The First National Bank of Chaska (FNB Chaska) is a \$176 million community bank located in Chaska, Minnesota, which is approximately 20 miles southwest of the Minneapolis/St. Paul metropolitan area. In addition to the main office in Chaska, the bank operates full-service branch locations in Chaska at the Chaska Commons shopping center and in Shakopee, Minnesota, as well as a residential real estate loan production office in St. Peter, Minnesota. Deposit-taking automated teller machines (ATMs) are located at the three full-service locations. Furthermore, as part of a multiple-bank holding company, customers of FNB Chaska have the ability to make deposits at any of the holding company-owned banks, branches, and deposit-taking ATMs.

FNB Chaska is owned by Klein Financial, Incorporated, a nine-bank holding company with consolidated assets of \$1.2 billion also headquartered in Chaska. In 2000, Klein Financial Inc. purchased Hometown Mortgage, a mortgage company. Mortgage loans originated by Hometown Mortgage did not impact the bank's CRA performance during the evaluation period. The holding company also operates a data center that provides data processing services to its subsidiary banks.

FNB Chaska's primary lending focus continues to be residential real estate and commercial lending. As of June 30, 2003, FNB Chaska's \$123 million loan portfolio was comprised of: \$53 million in commercial and commercial real estate loans (43%), \$36 million in residential real estate loans (29%), \$27 million in construction loans (22%), \$7 million in consumer loans (5%), and \$1 million in agricultural loans (1%). Total net loans represent 69% of total assets. For purposes of this evaluation, we considered residential real estate and commercial loans to be the primary product lines.

There are no legal, financial, or regulatory impediments limiting the bank's ability to meet the credit needs of its assessment area. FNB Chaska was rated "Satisfactory" as of the prior CRA evaluation dated November 30, 1998.

DESCRIPTION OF THE ASSESSMENT AREA

FNB Chaska's assessment area (AA) is located in the southwestern portion of the Minneapolis/St. Paul Metropolitan Statistical Area #5120 (MSA). There are 35 census tracts in the AA, including all tracts in Carver (12) and Scott (14) Counties and 9 census tracts in extreme southern Hennepin County. In the AA, 1 census tract is designated as moderate-income, 24 are middle-income, and 10 are upper-income. No low-income census tracts are located in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 U.S. Census Data, the total population for the assessment area is 135,072 persons. Approximately 94% of the housing units in the AA are occupied, with 74% being owner occupied. The 1990 Census Data indicates a median housing value of \$102,522. However, housing values in the area have risen considerably, with an updated median value of

approximately \$150,000. The 1990 Census Data reported a Median Family Income for the MSA of \$43,063, while the updated Department of Housing and Urban Development's (HUD) 2002 Median Family Income for the MSA is \$76,700. The AA has less than 4% of families reporting income below the poverty level (less than 30% of the Median Family Income). The following table summarizes the income levels of individual census tracts and families located within the bank's assessment area:

Income Distribution of Geographies and Families							
Number of Census Tracts				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	1	24	10	12%	17%	28%	43%

Source: U.S. Census Data (1990)

Competition for loans and deposits in the AA is strong as several banks, credit unions, savings institutions, and mortgage companies maintain main or branch offices within the AA. FNB Chaska currently maintains a 9% market share of deposits in Carver and Scott Counties.

Major employers in the city of Chaska include: FSI International, Flouroware Incorporated, Lake Region Manufacturing, Sanofi Diagnostic Pasteur Incorporated, Carver County, and Mammoth Incorporated. For Carver and Scott Counties, employment is predominately in the manufacturing, light industrial, and educational/health/social services sectors. Unemployment rates for Carver, Scott, and Hennepin Counties of 3.3%, 3.2%, and 3.9% respectively, are less than the state and national unemployment rates of 4.6% and 6.2%, respectively.

We did not identify any unmet credit needs in the assessment area through our contacts with a trade association and housing authority agency. Through these contacts, the construction of additional affordable housing units was perceived to be a need in the community. Our contacts indicated that area banks are willing to provide financing to community members. They also indicated that bank employees have been involved in many local organizations and are visible members of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Chaska's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 80% over the 19 quarters from December 31, 1998 to June 30, 2003.

FNB Chaska's net loan-to-deposit ratio is strong when compared with other community banks of similar size (with total assets between \$111 million and \$190 million) in the assessment area. FNB Chaska ranks second among a total of six similarly situated banks chartered in the assessment area. The average quarterly net loan-to-deposit ratio for comparison banks is 74%

and ranged from 64% to 87% over the same 19 quarters from December 31, 1998 to June 30, 2003.

Lending in Assessment Area

FNB Chaska originated a majority of its residential real estate and commercial loans to borrowers located in its assessment area. According to the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) data from January 1, 1999 through December 31, 2002, 76% by number and 79% by dollar volume of residential real estate loans were originated to borrowers located in the assessment area. By analyzing a sample of commercial and commercial real estate loans, we determined that a majority of the loans originated were to borrowers located in the assessment area. Of the commercial and commercial real estate loans originated from January 1, 1999 to December 31, 2002, 80% by number and 76% by dollar volume were made to borrowers in the assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

Lending in the Assessment Area By Number and Dollar Amount (000s)				
Type of Loan	Number of Loans	Percent by Number	Dollar of Loans (000s)	Percent of Dollars
<i>Home Purchase</i>	143	59%	\$13,620	70%
<i>Home Refinance</i>	235	84%	\$25,440	84%
<i>Home Improvement</i>	171	83%	\$4,689	77%
Residential Real Estate Subtotal	549	76%	\$43,749	79%
Commercial and Commercial Real Estate	24	80%	\$9,659	76%
Total	573	76%	\$53,408	78%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Loans

FNB Chaska's geographic distribution of loans throughout the assessment area is reasonable. The origination of commercial and commercial real estate, and residential real estate loans is similar to the demographics of the AA and includes lending in most census tracts.

The geographic distribution of residential real estate loans is reasonable when compared with the

AA demographics. Examiners reviewed all loans reported on the bank’s HMDA-LAR during the examination period. The following tables detail the geographic distribution of residential real estate loans by product type and total:

Geographic Distribution of Home Improvement Loans by Income Level					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	2	1%	\$38	1%	2%
Middle	159	93%	\$4,312	92%	69%
Upper	10	6%	\$339	7%	29%
Total	171	100%	\$4,689	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Geographic Distribution of Home Refinance Loans by Income Level					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	2	1%	\$77	1%	2%
Middle	218	93%	\$23,261	91%	69%
Upper	15	6%	\$2,102	8%	29%
Total	235	100%	\$25,440	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Geographic Distribution of Home Purchase Loans by Income Level					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	0	0%	\$0	0%	2%
Middle	129	90%	\$12,208	90%	69%
Upper	14	10%	\$1,412	10%	29%
Total	143	100%	\$13,620	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Geographic Distribution of Total Residential Real Estate Loans (Home Purchase, Home Improvement, Home Refinance) by Income Level					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	4	1%	\$115	1%	2%
Middle	506	92%	\$39,781	91%	69%
Upper	39	7%	\$3,853	8%	29%
Total	549	100%	\$43,749	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

The geographic distribution of commercial and commercial real estate loans is also reasonable when compared to the AA demographics. Of the loans sampled, 5% by number and 1% by dollar volume of loans were originated to businesses located in the moderate-income geography. The following table details the overall geographic distribution of commercial loans sampled:

Geographic Distribution of Commercial Loans by Income Level					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Businesses by CT Category
Low	0	0%	\$0	0%	0%
Moderate	1	5%	\$33	1%	2%
Middle	17	85%	\$2,721	57%	65%
Upper	2	10%	\$2,013	42%	33%
Total	20	100%	\$4,767	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB Chaska's distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable, particularly when considering its primary product lines of residential real estate and commercial lending.

FNB Chaska's distribution of home purchase, improvement, and refinance loans to borrowers of different income levels reflects reasonable performance. In the aggregate, the bank originated 7% by number and 4% by dollar volume of its residential real estate loans to low-income borrowers. In addition, 22% by number and 16% by dollar volume of residential real estate loans were originated to moderate-income borrowers. Assessment area demographics reveal that 12% and 17% of the families are categorized as low- and moderate-income, respectively. The following tables detail the bank's performance of residential real estate lending to low- and moderate-income borrowers by product type and total:

Borrower Distribution Of Home Improvement Loans By Income Level					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	16	10%	\$204	4%	12%
Moderate	38	22%	\$716	15%	17%
Middle	67	40%	\$1,865	40%	28%
Upper	47	28%	\$1,885	40%	43%
Total	168	100%	\$4,670	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Borrower Distribution Of Home Purchase Loans By Income Level					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	9	6%	\$694	5%	12%
Moderate	25	18%	\$1,550	12%	17%
Middle	33	24%	\$3,952	30%	28%
Upper	72	52%	\$6,988	53%	43%
Total	139	100%	\$13,184	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Borrower Distribution Of Home Refinance Loans By Income Level					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area

Low	10	4%	\$888	4%	12%
Moderate	58	25%	\$4,747	19%	17%
Middle	83	35%	\$8,553	33%	28%
Upper	84	36%	\$11,252	44%	43%
Total	235	100%	\$25,440	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Borrower Distribution Of Total Residential Real Estate Loans (Home Purchase, Home Improvement, Home Refinance) By Income Level					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	35	7%	\$1,786	4%	12%
Moderate	121	22%	\$7,013	16%	17%
Middle	183	34%	\$14,370	33%	28%
Upper	203	37%	\$20,125	47%	43%
Total	542	100%	\$43,294	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

The distribution of commercial loans to businesses of different revenue sizes is also reasonable. Based on our sample of 20 commercial and commercial real estate loans originated in the AA between January 1, 2000 and December 31, 2002, FNB Chaska originated 70% by number, but only 43% by dollar volume of its commercial loans to businesses with annual revenues less than \$1 million. This is compared to 2002 assessment area demographics of 90% of reporting businesses having annual revenues less than \$1 million. The difference between the number and dollar amount figures was caused by the inclusion of one very large loan in our sample. The borrower on that loan had annual revenues in excess of \$1 million. The following table compares the bank's commercial lending activity by borrower revenue size to community demographics:

Borrower Distribution of Commercial Loans by Revenue Size					
Gross Annual Revenue (000s)	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Business Demographic Data

Revenues <\$50	1	5%	\$25	1%	
Revenues \$50-\$100	3	15%	\$420	9%	
Revenues \$100-\$250	5	25%	\$273	6%	
Revenues \$250-\$500	1	5%	\$25	1%	
Revenues \$500-\$1,000	4	20%	\$1,288	27%	
Total Revenues <\$1,000	14	70%	\$2,031	43%	90%
Total Revenues >\$1,000	6	30%	\$2,736	57%	10%
Total	20	100%	\$4,767	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

**Note: Business demographic data is for reporting companies only. In the assessment area, 37% of businesses did not report revenue.*

Responses to Complaints

Neither FNB Chaska nor its regulatory agency has received complaints regarding the bank's CRA performance since the last CRA exam.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.